

greatest success one can have is within the walls of their own home. I congratulate her on the completion of her term as Utah's 1996 Mother of the Year. I know that to her family however, she will always be the Mother of the Year.●

AUDITOR RESPONSIBILITIES UNDER THE 1995 PRIVATE SECURITIES LITIGATION REFORM ACT

● Mr. WYDEN. Mr. President, when a certified public accountant provides an opinion on a company's financial statements, investors and consumers rely on that statement. This role is vital to the efficient workings of our capital markets, which are the envy of the world. To keep our markets the best, investors must have confidence in them. That is why I have worked over the years for stronger rules to protect investors from corporate fraud.

In recent years, corporate fraud has been perpetrated in the health care arena, military contracting and in the savings and loan fiasco, costing taxpayers billions of dollars. As a Member of the House and as a new Senator, I have worked to put in place clear procedures for early detection of fraud and illegal acts so as to protect the public from huge losses of their hard-earned tax dollars.

To strengthen the fight against fraud, I worked as part of a bipartisan coalition that was successful in adding a new Section 10A to the Securities Exchange Act of 1934. I wish to take a moment today to update my colleagues on the status of that section's implementation.

Since the enactment of this law in December 1995, I have been interested in how the Securities and Exchange Commission (SEC) and the accounting industry would respond to the new requirements and the spirit of the law. I am pleased that both the industry and the Securities and Exchange Commission have taken positive steps to assure that both the letter and the spirit of the law are fully adhered to. Within the industry, I would note that the American Institute of Certified Public Accountants (AICPA) last year issued a revised statement of Auditing Standards (SAS) Number 82 "Consideration of Fraud in a Financial Statement Audit." The new SAS supersedes Statement of Auditing Standards (SAS) Number 53 relating to "The Auditor's Responsibility to Detect and Report Errors and Irregularities." The previous AICPA Statement of Auditing Standards Number 53 required auditors to report errors and irregularities. The new SAS takes an important step forward by making clear for the first time an auditor's responsibility to detect material fraud in financial statements and by offering various fraud risk factors to be considered in planning and performing all audits. The new revised SAS, read in conjunction with the AICPA's SAS Number 54 relating to an auditor's responsibility to detect illegal acts, is not only consistent with

Section 10A but also promotes the intent of that provision to put procedures in place to help detect fraud early.

To date, the SEC has only limited experience with Section 10A because it becomes effective in two stages. For companies that file selected quarterly financial data with the SEC, Section 10A applies to annual reports for fiscal years beginning on or after January 1, 1996. For companies that do not file these reports, the provision applies to annual reports for fiscal years beginning on or after January 1, 1997. Many financial reports are filed at the end of the calendar year, meaning that most company audits for the 1996 fiscal year have not yet been completed. The SEC has assured me that it will evaluate and report on its experience with implementation of Section 10A in a timely manner.

In addition, I wrote SEC Chairman Arthur Levitt seeking his views on whether the AICPA's new SAS Number 82 and existing SAS 54 relating to illegal acts are consistent with the purpose and intent of Section 10A. In his reply, Chairman Levitt states: "We believe that both these standards improve the ability of auditors to detect management fraud and are consistent with the purposes of Section 10A."

Mr. President, the vast majority of accountants are honest, capable professionals. The number of audit failures is actually quite low compared to the amount of work they do. The AICPA's new revised SAS No. 82 and section 10A are added protection for investors and corporations against such failures.

I am pleased with both the work of the AICPA in clarifying the role of auditors in detecting fraudulent acts and with Chairman Levitt's reply assuring us that the SEC and AICPA procedures should work well together to promote the early detection of corporate fraud.

I submit for the RECORD my letter to SEC Chairman Levitt and his reply of January 31, 1997, and ask that they be printed.

The material follows:

U.S. SENATE,

Washington, DC, January 10, 1997.

HON. ARTHUR LEVITT, JR.,
Chairman, Securities and Exchange Commission, Washington, DC.0

DEAR MR. CHAIRMAN: I am writing to seek your views as Chairman of the Securities and Exchange Commission on the status of implementation of Section 10A of the Private Securities Litigation Reform Act of 1995 and particularly the relationship between Section 10A and the American Institute of Certified Public Accountants' (AICPA) revised Statement of Auditing Standards (SAS) Number 53 relating to fraud.

As the sponsor of Section 10A of the legislation, my goal was to clarify the auditor's role in detecting fraud in financial statements and to put in place clear procedures for early detection of fraud and illegal acts so as to avoid the need for strike suits in the first place. I would appreciate your views on whether the AICPA's revised SAS 53 and existing SAS 54 relating to illegal acts are consistent with the purpose and intent of Section 10A in seeking early detection of illegal

acts that are material to the financial statements being audited. I would also appreciate knowing whether you have encountered any problems in implementing and enforcing the requirements of new Section 10A.

I look forward to your prompt response to this request.

Sincerely,

RON WYDEN,
U.S. Senator.

SECURITIES AND
EXCHANGE COMMISSION,

Washington, DC, January 31, 1997.

HON. RON WYDEN,
U.S. Senate,
Washington, DC.

DEAR SENATOR WYDEN: Thank you for your letter seeking information on the implementation of section 10A of the Securities Exchange Act of 1934, which was adopted as Title III of the Private Securities Litigation Reform Act of 1995.

In connection with this legislation, the American Institute of Certified Public Accountants (AICPA) revised SAS No. 53, entitled "The Auditor's Responsibility to Detect and Report Errors and Irregularities." To implement the reporting provisions of section 10A(b), the Commission issued proposed rules, a copy of which are enclosed. Final action is expected soon.

The AICPA's revised standard clearly requires auditors to assess the risk of material misstatements in financial statements due to fraud. In discharging this duty, auditors must consider various fraud risk factors in planning and performing the audit. It also requires that working papers document both the auditor's assessment of those risk factors and any responsive action taken.

Additional guidance for auditors discharging their responsibilities under section 10A(a) is found in existing SAS No. 54, since this standard is not limited to fraudulent conduct. SAS No. 54, as you know, served as a template in drafting certain provisions of section 10A. We believe that both these standards improve the ability of auditors to detect management fraud and are consistent with the purposes of section 10A.

The Commission's experiences under section 10A have been limited due to the provision's relatively recent effectiveness.¹ Section 10A becomes effective in two stages, depending on whether a company files selected quarterly financial data with the SEC. For those companies who file this information, the provision applies to annual reports for fiscal years beginning on or after January 1, 1996. For companies who do not file these reports, the provision applies to annual reports for fiscal years beginning on or after January 1, 1997. Since most companies file at calendar year-end, the audit for the 1996 fiscal year for most companies has not yet been completed.

After we have had time to evaluate our experiences for this period, we would be pleased to furnish you with additional information. Thank you again for your continuing interest in these important issues.

Sincerely,

ARTHUR LEVITT.●

ROGERS H. CLARK

Mr. FAIRCLOTH. Mr. President, I rise today to congratulate Mr. Rogers H. Clark, the president of Sampson-Bladen Oil Co., Inc., on his recent election as president of the Petroleum Marketers Association of

¹During an enforcement investigation, however, an accounting firm provided certain information and requested that it be deemed to be submitted under section 10A.